NATIONAL FLOOD INSURANCE PROGRAM (NFIP)
POLICY ISSUANCE 8-95
DECEMBER 5, 1995

Subject: 30-Day Waiting Period

Background: Section 579 of the National Flood Insurance Reform Act of 1994 (NFIRA) mandates a 30-day waiting period before coverage under a new contract for flood insurance or any modification to coverage under an existing flood insurance contract becomes effective, with two exceptions. The express intent of Congress in mandating a 30-day waiting period was to prevent the purchase of flood insurance at times of imminent flood loss. The Conference Committee Report says: "The committee is concerned by information that arose from the 1993 Midwest flooding that suggests that some homeowners bought flood insurance only when flooding was imminent."

One exception to the required 30-day waiting period involves the initial purchase of flood insurance in connection with the making, increasing, extension, or renewal of a loan. The second involves the initial purchase of flood insurance within one year of a map revision.

Early Implementation: At first, the Federal Insurance Administration (FIA) interpreted the statutory language of "initial purchase" as not including adding coverage to an existing flood insurance policy. This narrow interpretation meant that lenders and borrowers would have to wait 30 days before flood insurance coverage became effective even for situations when the lender required the borrower simply to add more flood coverage to a policy already in force in connection with a loan transaction or as a result of a mortgage loan portfolio review.

National associations representing lenders, flood hazard determination companies, and insurers, as well as individual lending institutions have brought to our attention that this narrow interpretation of the statute's term "initial purchase" creates a number of adverse and inequitable situations.

Adverse Effects Connected with Adding Coverage to an Existing Policy as a Result of Second Mortgages, Home Equity Loans, and Refinancing: First, lenders in conforming with the flood insurance purchase requirements (Section 102) of the Flood Disaster Protection Act of 1973 (the 1973 Act), as amended by the NFIRA must require flood insurance in connection with second mortgage loans, home equity loans, and refinancing of existing loans. When the borrower already has a flood insurance policy, but for an amount of coverage less than the amount required to protect that lender's interest in the property, the lender must require additional flood insurance. Since, under this narrow interpretation, such a purchase of additional flood insurance is not the "initial purchase" of the flood coverage, lenders have delayed closing for refinancing, home equity loans, and other second mortgages so that the flood coverage will be in effect at the time of the loan closing and the lender will be in compliance with the mandatory purchase requirement.

Delaying loan closings to conform with the narrow interpretation of the term "initial purchase" has also hurt some borrowers who often have a "locked-in" interest rate, but only for a limited period of time. If a loan closing must be delayed to coincide with the effective date of flood insurance coverage, the borrower may unnecessarily have to pay a higher interest rate. On the other hand, a borrower who has never bought flood insurance before in connection with an existing mortgage is entitled to flood coverage without a waiting period when applying for refinancing or a second mortgage. To avoid these unfortunate and inequitable results, some lenders and borrowers are being driven to foreign insurance markets that offer flood insurance coverage without a waiting period.

That result however runs contrary to a basic objective of the flood insurance reform legislation as stated in the Conference Committee Report, namely, "to ensure that those who should have flood insurance, pursuant to the mandatory purchase requirements of existing law, obtain it and maintain it. Increasing compliance and participation in the NFIP will provide added income to the insurance fund and decrease the financial impact on the federal government, and to citizens who are the victims of floods." It is clear then that it was not the intent of Congress for the 30-day waiting period to interfere with the mandatory purchase requirement or to create added burdens on lenders and borrowers which unfortunately has been the case during the early implementation of NFIRA by lenders.

Interpretation: To be consistent with the intent of Congress, therefore, FIA believes that "initial purchase" with respect to the exception to the 30-day waiting period means the **initial purchase of flood insurance in connection with a particular loan closing, i.e., the purchase of the additional amount being required for that loan closing.**

Potential Adverse Effects Connected with Adding Coverage to an Existing Policy as a Result of Map Revisions: The second exception to the mandatory 30-day waiting period applies to the "initial purchase" of flood insurance resulting from a map revision. This exception is clearly intended by Congress to facilitate lender compliance with the statutory flood insurance purchase requirements. Too narrow an interpretation of the term "initial purchase" of flood insurance in connection with map revisions potentially undermines that objective and creates inequities between similarly situated borrowers: those borrowers who must purchase flood insurance **for the first time** as a result of a map change and those borrowers who had already purchased flood insurance due to their personal perception of the flood risk prior to the map change which later triggers a statutory requirement for additional flood insurance. In some cases the latter class of property owners, while having some flood insurance coverage, may not have enough flood insurance to meet the statutory requirement under Section 102 of the 1973 Act, as amended by the NFIRA, that the amount of flood insurance be in an amount equal to the outstanding balance of the loan or the maximum amount of insurance available under the Act, whichever is less. In those cases, the narrow interpretation of “initial purchase” would penalize prudent property owners and prevent them from obtaining the necessary increased protection of flood insurance for an additional 30 days--protection that benefits them, their lenders, and the Federal taxpayers. The result, again, is that too narrow an interpretation of “initial purchase” of flood insurance would drive the underinsured borrowers and their lenders to foreign markets of flood insurance which would divert funds from the nation’s flood insurance fund. These are effects certainly at cross purposes with the intent of Congress for the NFIRA. In the Conference Committee report, two of the listed purposes of the NFIRA are to “provide added income to the insurance fund” and “decrease the financial impact of flooding to the federal government and to citizens who are victims of floods.”

Interpretation: FIA believes that “initial purchase” with respect to the exception to the 30-day waiting period in connection with map revisions means the **initial purchase of flood insurance in connection with a particular map revision, i.e., the purchase of the additional amount being required in connection with that map revision.**

Potential Adverse Effects Connected with Mortgage Portfolio Reviews: Under Section 102(e) of the 1973 Act, as amended by the NFIRA, a lender determining that a loan or loans in its portfolio should be but are not covered by flood insurance must notify the borrower that he or she should buy flood insurance. If the borrower fails to purchase flood insurance within 45 days after notification, the lender is required to purchase the insurance on behalf of the borrower. Congress saw fit to provide express exceptions to the 30-day waiting period in connection with all other lender activities where the mandatory purchase of flood insurance applies. FIA believes Congress did not intend to imply that the requirement for flood insurance is any less urgent when discovered after loan origination, including reviews for compliance by lenders acting in good faith and in compliance with the Section 102(e), than it is at loan origination. If there is no exception to the 30-day waiting period in such cases, borrowers and lenders, and ultimately the Federal taxpayers, are placed in a rather vexing situation: Faced with a statutory mandate for coverage the borrower or the lender must buy flood coverage but then must wait for the benefits of its protection for 30-days. The law in effect would be saying almost two contradictory things to lenders and borrowers “you have to buy it (flood insurance) because it’s essential, but you’ll have to wait for it to become effective.”

Further, as noted above, the purpose of the 30-day waiting period as expressed in the Conference Committee Report was to address the problem of homeowners buying flood insurance “only when flooding was imminent.” This would not be the situation with the purchase of flood insurance being required by the lender to comply with Section 102(e).

Interpretation: FIA believes the 30-day waiting period was not meant to apply to an existing loan that should have but does not have the flood insurance as required by Section 102(e).

Adverse Effects in Connection with Policy Renewals: Additionally, there is a long established practice in the property insurance industry, followed throughout the history of the Program, to encourage property owners to increase coverage at renewal to account for inflation, often by suggesting an amount of increased insurance coverage on the renewal bill. In fact, some insurance companies even get insiders to agree to this when they first take out a policy, and the companies automatically adjust the amount of coverage upward at the time of renewal. In some cases, insureds at renewal choose to buy more flood coverage than that suggested by the agreement with their insurer in an effort to gain the maximum benefits of flood insurance protection available under the NFIP.

Interpretation: FIA believes Congress fully understood these practices and did not intend for the 30-day waiting period to apply to increases in coverage at renewal where the renewal premium is received before renewal or within the grace period, even though that is not at least 30 days before the renewal effective date.

Policy Decision:

1. The 30-day waiting period will **not** apply when there is an existing insurance policy and an additional amount of flood insurance is required in connection with the making, increasing, extension, or renewal of a loan, such as a second mortgage, home equity loan, or refinancing. The increased amount of flood coverage will be effective as of the time of the loan closing, provided the increased amount of coverage is applied for and the presentment of additional premium is made at or prior to the loan closing.

2. The 30-day waiting period will **not** apply when an additional amount of insurance is required as a result of a map revision. The increased amount of coverage will be effective at 12:01 a.m. on the first calendar day after the date the increased amount of coverage is applied for and the presentment of additional premium is made.

3. The 30-day waiting period will **not** apply when flood insurance is required as a result of a lender determining that a loan which does not have flood insurance coverage should be protected by flood insurance. The coverage will be effective upon the completion of an application and the presentment of payment of premium.

4. The 30-day waiting period will **not** apply when an additional amount of insurance is being obtained in connection with the renewal of a policy. The increased amount of coverage will be effective at 12:01 a.m. on the date of policy renewal, provided

the premium for the increased coverage is received before the expiration of the grace period.

Effective Date: Policy Decisions 1, 2, and 3 are effective January 2, 1996. Policy Decision 4 is effective immediately.

12/5/95
DATE

/s/ Elaine A. McReynolds
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Federal Insurance Administrator